

**REPORT OF THE AUDIT OF THE
FORMER MADISON COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MADISON COUNTY CLERK

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the former Madison County Clerk's audit for the year ended December 31, 2001. We have issued a qualified opinion on the financial statement. The former County Clerk had weaknesses in the design and operation of her system of internal controls in the areas of accounts receivable and Motor Vehicle Licensing Department that allowed a Deputy Clerk to manipulate and falsify reports and records of the County Clerk's office.

Financial Condition:

Excess fees increased by \$21,572 from the prior calendar year, resulting in excess fees of \$231,490 as of December 31, 2001. Revenues increased by \$309,546 from the prior year and disbursements increased by \$287,974.

Report Comments:

- Former Deputy Clerk Manipulated And Falsified County Clerk's Records and Reports As A Result Of Lack Of Segregation Of Duties In The County Clerk's Motor Vehicle License Department And Inadequate Internal Controls In The Revenue Cabinet
- The Former County Clerk Had A Deficit In Her Official Bank Account
- Accounts Receivable Should Be Reconciled And Verified On A Regular Basis
- The Practice Of Cashing Checks From Office Funds Should Be Prohibited
- The Former County Clerk Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits

Deposits:

As of April 3, 2001, the former Clerk's deposits were uninsured and uncollateralized by bank securities or bonds by \$37,667. Also, the former Clerk had not entered into a written agreement with the depository institution.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kent B. Clark, Madison County Judge/Executive

Honorable Mary Jane Ginter, Former Madison County Clerk

Honorable Billy Gabbard, Madison County Clerk

Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Madison County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The former County Clerk had weaknesses in the design and operation of her system of internal control in the areas of accounts receivable and Motor Vehicle Licensing Department that allowed a Deputy Clerk to manipulate and falsify reports and records of the County Clerk's office.

In our opinion, except for the effects on excess fees as discussed in the preceding paragraph, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kent B. Clark, Madison County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated February 5, 2003, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- Former Deputy Clerk Manipulated And Falsified County Clerk's Records and Reports As A Result Of Lack Of Segregation Of Duties In The County Clerk's Motor Vehicle License Department And Inadequate Internal Controls In The Revenue Cabinet
- The Former County Clerk Had A Deficit In Her Official Bank Account
- Accounts Receivable Should Be Reconciled And Verified On A Regular Basis
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The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 5, 2003

MADISON COUNTY
 MARY JANE GINTER, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

State Fees For Services	\$	25,682
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Fiscal Court		11,120
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	1,424,033
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Usage Tax		6,595,257
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Tangible Personal Property Tax		4,371,010
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Lien Release		16,175
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Miscellaneous		6,205
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Licenses-

Fish and Game		12,931
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Marriage		22,115
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Occupational		2,780
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Deed Transfer Tax		216,348
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Delinquent Tax		478,145
		13,144,999

Fees Collected for Services:

Recordings-

Real Estate Mortgages	\$	160,669
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Chattel Mortgages and Financing Statements		187,385
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Powers of Attorney		44,196
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All Other Recordings		70,577
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Charges for Other Services-

Candidate Filing Fees		650
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Copywork		15,069
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Postage		5,305
		483,851

Other:

Refunds and Overpayments	\$	6,372
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NSF Fees		4,795
		11,167

Interest Earned		12,001
		12,001

Total Receipts	\$	13,688,820
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MADISON COUNTY
 MARY JANE GINTER, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,053,956
Usage Tax	6,381,106
Tangible Personal Property Tax	1,563,897

Licenses, Taxes, and Fees-

Legal Process Tax	61,851
Delinquent Tax	65,269
Miscellaneous	<u>12,369</u>
	\$ 9,138,448

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 298,851	
Delinquent Tax	37,820	
Deed Transfer Tax	205,531	
Occupational License	<u>2,401</u>	544,603

Payments to Other Districts:

Tangible Personal Property Tax	\$ 2,330,710	
Delinquent Tax	<u>252,562</u>	2,583,272

Payments to Sheriff 6,387

Payments to County Attorney 74,792

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 655,383
Training Incentive	2,189

Employee Benefits-

Employer's Share Social Security	52,670
Employer's Share Retirement	48,048
Employer's Paid Health Insurance	55,779

Materials and Supplies-

Office Supplies and Equipment	57,381
Maintenance and Repairs	68,990

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY
 MARY JANE GINTER, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:
 (Continued)

Other Charges-			
Conventions and Travel	\$	7,741	
Postage		12,409	
Rent and Utilities		17,312	
Bank Charges		658	
Refunds and Overpayments		5,807	
Usage Refunds		17,195	
Advalorem Refunds		3,069	
License Refunds		113	
Miscellaneous		20,612	
Uncollected Cold Checks		2,050	\$ 1,027,406
Total Disbursements			\$ 13,374,908
Net Receipts			\$ 313,912
Less: Statutory Maximum			78,822
Excess Fees			\$ 235,090
Less: Expense Allowance			3,600
Excess Fees Due County for 2001			\$ 231,490
Payments to County Treasurer - February 12, 2002	\$	214,570	
February 5, 2003		16,920	231,490
Balance Due at Completion of Audit			\$ 0

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former County Clerk's agent in the former County Clerk's name, or provided surety bond which named the former County Clerk as beneficiary/obligee on the bond. However, as of April 3, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$37,667 of public funds uninsured and unsecured. In addition, the former County Clerk did not have a written agreement with the depository institution securing the former Clerk's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 3, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by the county official's agent in the county official's name	\$ 760,863
FDIC Insured	100,000
Uncollateralized and uninsured	<u>37,667</u>
Total	<u><u>\$ 898,530</u></u>

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$25,279. The account earned \$4 in interest. No funds were expended during calendar year 2001. The unexpended grant balance was \$25,283 as of December 31, 2001.

MADISON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 5. Subsequent Events

The former County Clerk received a check in September 2002 for \$110,732 from KACO All Lines Fund as payment of the claim for the former deputy clerk's illegal acts, thereby eliminating the 2000 deficit of \$88,855 and the 2001 deficit of \$21,505. In addition, all obligations that were due as a result of adjustments that were made to the financial statements for the former deputy clerk's manipulation and falsification of the former County Clerk's records for calendar years 2000 and 2001 were subsequently paid. The remaining KACO insurance balance of \$372 was subsequently remitted to the County to close out the calendar year 2001 fee account.

MADISON COUNTY
 MARY JANE GINTER, FORMER COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Year Ended December 31, 2001

Assets

Cash in Bank	\$ 601,580
Deposits in Transit	83,210
Due From 2002 Account	<u>2,582</u>
Total Assets	<u>\$ 687,372</u>

Liabilities

Paid Obligations-	
Outstanding Checks	\$ 377,288
State Treasurer-	
Motor Vehicle Licenses	31,334
Usage Tax	23,654
Delinquent Tax	3,902
Madison County-	
Delinquent Tax	2,203
Excess Fees - 2001	231,490
Employer's Share - Retirement	5,077
Madison County Emergency Medical Services-	
Delinquent Tax	1,385
Madison County Library-	
Delinquent Tax	821
Madison County Health Department-	
Delinquent Tax	953
Madison County Extension-	
Delinquent Tax	335
Berea Independent School-	
Delinquent Tax	448
Madison County School-	
Delinquent Tax	11,046
Madison County Attorney-	
Delinquent Tax	4,344
Madison County Sheriff-	
Delinquent Tax	271

MADISON COUNTY
MARY JANE GINTER, FORMER COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
For The Year Ended December 31, 2001
(Continued)

Liabilities (Continued)

Red Lick Conservation District-		
Delinquent Tax	\$	42
Internal Revenue Service-		
Tax Withholdings		7,563
Various Vendors-		
Operating Expenditures		5,829
Refund		100
Bank Correction		395
Returned Checks		<u>397</u>
Total Liabilities		<u>\$ 708,877</u>
Total Fund Deficit as of December 31, 2001		<u>\$ (21,505)</u>

COMMENTS AND RECOMMENDATIONS

MADISON COUNTY
MARY JANE GINTER, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

The Former County Clerk Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits

On April 3, 2001, \$37,667 of the former County Clerk's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The former County Clerk should have required the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Former County Clerk's Response:

I was unaware that a written agreement wasn't in place.

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES:

1. Former Deputy Clerk Manipulated And Falsified County Clerk's Records and Reports As A Result Of Lack Of Segregation Of Duties In The County Clerk's Motor Vehicle License Department And Inadequate Internal Controls In The Revenue Cabinet

The former County Clerk's licensing, receipting and reporting duties of motor vehicle license and usage tax transactions were not adequately segregated. In addition, the Revenue Cabinet did not verify proper documentation accompanied the weekly AVIS Motor Vehicle Title/Registration Reports for backline corrections. As a result, a former deputy clerk was able to manipulate and falsify these reports and the County Clerk's General Ledger.

A former deputy clerk who licensed vehicles, collected motor vehicle usage tax and license fees, as well as prepared and reconciled the weekly AVIS reports deducted \$11,131 in usage tax and \$146 in license fees through backline corrections and adjustments on the State Fee and Tax Remittance Correction Report of the AVIS weekly reports. These motor vehicle transactions were all active registrations and proper remittance had been made for them in the County Clerk's office. Further testing of these transactions revealed the former deputy clerk improperly disposed of monies collected for these registrations by cashing checks, applying remittances to wrong charge accounts, or not depositing cash paid by customers.

MADISON COUNTY
MARY JANE GINTER, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2001
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES:
(Continued)

1. Former Deputy Clerk Manipulated And Falsified County Clerk's Records and Reports As A Result Of Lack Of Segregation Of Duties In The County Clerk's Motor Vehicle License Department And Inadequate Internal Controls In The Revenue Cabinet (Continued)

In order to prevent any further manipulation and falsification of the weekly AVIS Motor Vehicle Title/Registration Reports and the County Clerk's General Ledger from occurring and not being detected, we recommend the licensing, receipting and reporting duties of motor vehicle license and usage tax transactions be segregated. We further recommend the County Clerk monitor and supervise these responsibilities. In addition, we recommend the Revenue Cabinet verify supporting documentation accompanies the backline corrections and adjustments on the State Fee and Tax Remittance Correction Report of the AVIS weekly reports.

Former County Clerk's Response:

Effective 4-1-2001, weekly report was moved to another department and reviewed weekly by the County Clerk.

2. The Former County Clerk Had A Deficit In Her Official Bank Account

We were unable to determine the total deficit in the former County Clerk's official bank account as of December 31, 2001 due to the significance and complexity of a former deputy clerk's manipulation and falsification of the former County Clerk's records. However, based on the audit procedures performed, the former County Clerk had a deficit of \$21,505 in her official bank account as of December 31, 2001. This deficit resulted from the former deputy clerk's manipulation of the former County Clerk's records whereby receipts totaling \$21,505 were not deposited in the former County Clerk's official bank account. We recommend the former County Clerk take the appropriate action to eliminate this deficit in her official bank account.

Former County Clerk's Response:

In September 2002, KACO paid us for the former deputy clerk's illegal acts eliminating this deficit.

MADISON COUNTY
MARY JANE GINTER, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2001
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES:
(Continued)

3. Accounts Receivable Should Be Reconciled And Verified On A Regular Basis

Based upon our testing of accounts receivable charge accounts, no reconciliation or verification of daily charges and/or payments on account was made. As a result, a former deputy clerk was able to manipulate charge accounts. Based on responses the former County Clerk received from billings submitted to customers with charge account balances, charge accounts had been created by the former deputy clerk for customers who paid cash for their motor vehicle transactions. In addition, we noted these same customers had transactions charged to other charge accounts. Furthermore, we verified through the AVIS system that transactions by individuals were charged to car dealer accounts. We also noted during our testing, that payments applied to these charge accounts were improper. Payments credited to charge accounts were checks from car dealers for valid motor vehicle transactions. Since the former deputy clerk had voided, charged another car dealer account, or inappropriately deducted these transactions from the AVIS weekly reports through backline corrections, she was able to apply these checks as payments on the charge accounts.

In the prior year, we recommended individual motor vehicle transactions be verified on a test basis and accounts receivable subsidiary balances be reconciled to the general ledger totals on a regular basis to prevent further misappropriation of receipts from occurring. Beginning June 1, 2001, the former County Clerk implemented a policy that dealer work could not be charged for more than one week and any outstanding balances should be paid every Friday. As of December 31, 2001, \$14,348 remained as outstanding accounts receivable. Of that amount, \$2,582 was paid in January 2002 and deposited in the 2002 Fee Account. This amount should be transferred to the 2001 Fee Account. In addition, \$11,289 were accounts that were manipulated by the former deputy clerk and were not legitimate charge account balances. The balance of \$477 was for miscellaneous recordings that had been charged and payment had never been received in the County Clerk's office.

In addition to verifying on a test basis accounts receivable subsidiary balances and reconciling those balances to the general ledger, we recommend all outstanding accounts receivable balances be collected in a timely manner, particularly at year end, and deposited in the appropriate fee account.

Former County Clerk's Response:

We will continue to monitor accounts receivable balance and ensure outstanding balances are paid timely.

MADISON COUNTY
MARY JANE GINTER, FORMER COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2001
(Continued)

4. The Practice Of Cashing Checks From Office Funds Should Be Prohibited

During our audit we discovered numerous instances of cashing checks in the County Clerk's Office. Checks were cashed for employees of the County Clerk's Office as well as other individuals. Additionally, we discovered cashed checks totaling \$5,584 from car dealers that were allegedly cashed by a former deputy clerk. One car dealer confirmed that cashed checks of \$4,917 were for valid motor vehicle transactions. We were not able to identify the motor vehicle transactions associated with the remaining balance of \$667. We recommend the practice of cashing checks from office funds be prohibited.

Former County Clerk's Response:

We discontinued cashing checks in July 2001.

PRIOR YEAR:

- Former Deputy Clerk Manipulated And Falsified County Clerk's Records And Reports As A Result Of Lack Of Segregation Of Duties In The County Clerk's Motor Vehicle License Department And Inadequate Internal Controls In The Revenue Cabinet
- The County Clerk Had A Deficit In Her Official Bank Account
- Accounts Receivable Should Be Reconciled And Verified On A Regular Basis
- The Practice Of Cashing Checks From Office Funds Should Be Prohibited

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Honorable Billy Gabbard, Madison County Clerk

Members of the Madison County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Madison County Clerk for the year ended December 31, 2001, and have issued our report thereon dated February 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Madison County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former County Clerk Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Madison County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Former Deputy Clerk Manipulated And Falsified County Clerk's Records and Reports As A Result Of Lack Of Segregation Of Duties In The County Clerk's Motor Vehicle License Department And Inadequate Internal Controls In The Revenue Cabinet
- The Former County Clerk Had A Deficit In Her Official Bank Account
- Accounts Receivable Should Be Reconciled And Verified On A Regular Basis
- The Practice Of Cashing Checks From Office Funds Should Be Prohibited

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 5, 2003

